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Malaysia

HRI Food Service Sector

Food Service Malaysia

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Report Highlights:

From 1999 to 2003, total consumer spending in the food service sector increased by 39% from \$3.1 billion to \$4.3 billion. Imports of food (primarily for consumer consumption) increased by 11.9% from \$1.6 billion in 1999 to \$1.8 billion in 2003. Nearly two-thirds of the imports are for processed foods. Hotel and resorts, restaurants, and the institutional sub-sectors represent the best potential for U.S. exporters. The restaurant accounted for 67.3% of the total food service sales in 2003. This is followed by the hotels and resorts (7.6%) and catering services to institutions (4.3%).

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1. Country Summary

Overview of Malaysia

Location of Malaysia	South East Asia
Malaysia's land area	329,735 square km (127, 311 square mile)
Form of government	Parliamentary government under constitutional monarchy
Capital	Kuala Lumpur
Population in 2003	25.05 million
Composition of population	Bumiputera (61.3%), Chinese (24.5%), and Indians (7.2%), other Malaysians (1.2%), and non-Malaysians (5.9%)
Religious composition	Islam (56%), Buddhism/Confucianism/Taoism (29%), Hinduism (7%), Christianity (6%), and others (2%)
Major languages	Malay, English, Chinese (including various dialects), and Tamil
Major festivals	Eidil Fitri (Islam), Chinese New Year, Deepavali (Hindu), Christmas, and Harvest Festival (East Malaysia only)

Malaysia is located in South East Asia and slightly larger than New Mexico. The country comprises of Peninsular Malaysia (located between Thailand's southern border and Singapore) and East Malaysia (occupying nearly one-third of northern Borneo Island). The country has a hot and humid climate with seasonal monsoons rains.

Malaysia's population in 2003 stood at 25.05 million and nearly 80% of the population resides in Peninsular Malaysia while the remaining 20% reside in East Malaysia. Malaysia's population consists of various ethnic groups. The indigenous group known as *Bumiputera* accounts for 61% of the population and comprises of ethnic groups such as the Malays, Ibans, Dayaks, Melanaus, Kadazans-Dusuns, Bajaus, and Dayaks. Chinese account for 24% of the population followed by Indians at 7%. Islam is Malaysia's official religion and nearly 56% of the population professes to the Islamic faith. Other major faiths practiced in Malaysia include Buddhism, Taoism, Hinduism, and Christianity. Thus various religious and ethnic festivities are celebrated and are public holidays in Malaysia.

The proportion of Malaysia's population living in the urban area increased from 50.7% in 1991 to 62.0% in 2000 while the proportion living in rural areas declined from 49.3% to 38.0%. The proportion of Malaysia's urban population is expected to increase further in the coming years due to greater job opportunities coupled with higher pay compared to the rural areas. Thus the average income of the working population living in the urban areas is 1.8 times greater than those in the rural areas.

Major Urban Areas and Their Population (2003)

City/Town	State	Population (Million)	% of Total Population
Kuala Lumpur	Federal Capital	1.40	5.6%

Major Urban Areas and Their Population (2003)

City/Town	State	Population (Million)	% of Total Population
Penang (state)	Penang	1.30	5.2%
Johor Bahru	Johor	0.68	2.7%
Klang	Selangor	0.68	2.7%
Ipoh	Perak	0.58	2.3%
Ampang	Selangor	0.50	2.0%
Petaling Jaya	Selangor	0.45	1.8%
Kuching	Sarawak	0.45	1.8%
Shah Alam	Selangor	0.33	1.3%
Kota Kinabalu	Sabah	0.33	1.3%
Seremban	Negri Sembilan	0.30	1.2%
Kuantan	Pahang	0.30	1.2%
Total		7.59	29.1%
Malaysia's Total Population in 2003		25.05	100.0%

Source: Malaysian Statistics Department

Malaysia has enjoyed moderate to strong economic growth since the 1990s except in 1998 during the Asian Economic Crisis and 2001 during the global economic slowdown. Malaysia's GDP per capita is among the highest in South East Asia after Singapore and Brunei. Inflation and unemployment in Malaysia remains relatively low and the country has nearly 1 million foreign workers mainly employed in unskilled and semi-skilled work. Malaysia's currency has been pegged to the US dollar since 1998 and currencies, such as the Euro and Japanese Yen, have appreciated against the US dollar and Malaysian Ringgit since 2000.

Malaysian Economy in Brief

	2000	2001	2002	2003	2004e	2005f
GDP (US\$ billion)	90.3	88.0	94.9	103.7	111.0	117.2
GDP per capita (US\$)	3,844	3,665	3,880	4,131	4,319	4,455
Income per capita (US\$)	3,529	3,386	3,516	3,710	4,036	4,197
Exchange rate - RM to US\$1	3.8	3.8	3.8	3.8	3.8	3.8
Overall CPI	1.5%	1.4%	1.8%	1.1%	1.5%	1.7%
Population (million)	23.5	24.0	24.5	25.1	25.6	26.1
Unemployment rate	3.1%	3.6%	3.5%	3.6%	3.8%	3.8%

Source: Malaysian Statistics Department, Ministry of Finance, and Asian Development Bank.

Malaysia's GDP is expected to grow by 7.0% from US\$103.7 billion in 2003 to US\$111.0 billion in 2004. The Asian Development Bank forecasts Malaysia's GDP to continue to grow but at a slower pace of 5.6% in 2005 to reach US\$117.2 billion. Inflation and unemployment will continue to remain low and per capita income to grow in 2004 and 2005 in line with Malaysia's economic growth trends.

2. Market Summary

2.1 Malaysia's Expenditure On Food Service

Malaysians frequently eat away from home at various low to high-end food service establishments across the country. It is common for families to treat themselves at least once a week eating away from home. From 1999 to 2003, total consumer spending in the food service sector increased by 39.0% from US\$3.09 billion to US\$4.3 billion.

Food Service Sales(US\$ Mil)

1999	2000	2001	2002	2003	Avg. Annual Growth
3,093	3,458	3,698	3,964	4,298	8.6%

Source: Euromonitor.

Imports of foods (primarily for consumer consumption) increased by 11.9% from US\$1.59 billion in 1999 to US\$1.78 billion in 2003. Nearly two-thirds of the imports are for processed foods and the remaining one-third for primary foods.

Imports of Foods Primarily for the Consumer Consumption (US\$ Mil)

Food Category	1999	2000	2001	2002	2003	Avg. Annual Growth
Primary foods	536	551	597	657	661	5.5%
Processed foods	1,058	1,150	1,282	1,231	1,123	1.9%
Total imports	1,594	1,701	1,879	1,888	1,784	3.0%

Source: MITI Report 1999- 2003.

2.2 Food Service Sub-Sectors

Hotels and resorts, restaurants, and the institutional sub-sectors represent the best potential for US exporters. The restaurant sub-sector accounted for 67.3% of the total food service sales in 2003. This is followed by the hotels and resorts (7.6%) and catering services to institutions (4.3%). Other sub-sectors include food stalls but are not a potential market for US exporters since they mainly serve relatively cheap local dishes.

Food Service Sales and Outlets

Food Service Sub-Sector	Sales in 2003 (US\$ Mil)	Avg. Annual Growth (1999-2003)	Number of Establishments
Hotels and Resorts	327	13.1%	1,800
Restaurants	2,893	8.9%	15,600
Institutional	185	4.2%	N/A

Food Service Sales and Outlets

Food Service Sub-Sector	Sales in 2003 (US\$ Mil)	Avg. Annual Growth (1999-2003)	Number of Establishments
Others	893	7.2%	-
Total	4,298	8.6%	

Source: Euromonitor, Malaysia Tourism, trade sources, and Spire analysis.

Hotels and Resorts. The hotels and resorts sub-sector encompasses cafés/bars and full-service restaurants in 3 to 5 star establishments. Many 3 to 5 star hotels and resorts are located in or nearby Kuala Lumpur, Penang, Johor Bahru, Langkawi Island and Kuantan in Peninsular Malaysia and Kuching and Kota Kinabalu in East Malaysia. 4-5 star establishments generally serve a wider range of imported foods compared to 3 star establishments. Best potential for US exporters are the food and beverage outlets in the 4-5 star hotels and resorts.

Restaurants. The restaurant sub-sector includes full service restaurants, café/bars, and fast food restaurants. Low-end full service restaurants and café/bars generally serve local dishes while mid to high-end establishments serve local, other Asian, and western dishes. Fast food restaurants cater to the mid-end segment and are increasingly popular generally serving western meals. These include US franchise operations such as KFC, McDonald's, Burger King, and Domino's Pizza. Most fast food restaurants and mid to high-end restaurants and café/bars are located in the cities and major urban areas where there is a significant population of middle to high-income customers. Best potential for US exporters are in the mid to high-end establishments.

Institutional Contract. The institutional contract sub-sector involves food-catering services to institutions where there are a certain number of confirmed customers. These include schools, hospitals, police, military, and airline catering. This sub-sector is serviced by small family-owned companies serving local dishes purchasing food items based on the lowest possible price. The exception is airline catering services by MAS Catering, which services not only Malaysia's national airline but also 20 other international airlines. Best potential for US exporters are with airline catering services.

2.3 Drivers of Growth and Consumer Trends

Increasing employment opportunities in the urban areas, urbanization, and rising personal income has led towards changes in lifestyle and increasing consumerism. Eating away from home has become frequent affairs for many Malaysians:

- Urbanization has caused greater time pressure on the working population creating demand for instant or convenience foods especially among younger people and singles that prefer to eat away from home.
- Nearly 45% of the women in Malaysia are employed and this proportion is expected to increase in the future. Traditionally women have prepared family meals but as more women enter the workforce they have less time to do so and increasingly rely on food services for their family meals.

- Eating out is a typical event among families and friends, especially during weekends. For special occasions, eating out at high-end establishments serving “exotic” imported foods such as seafood (e.g. US codfish, Australian pomfret, and Norwegian salmon) are considered a treat for the occasion.

Business lunches and dinners are increasingly popular among businesses. Lunches and dinners at higher-end hotels and restaurants are popular choices for such occasions and “exotic” imported foods are seen as adding prestige to the occasion. Businesses and government often conduct meetings, training programs, and special functions at high-end hotels and resorts and buffet serving various local and western dishes are common.

Wedding receptions conducted at high-end hotels and resorts are common among affluent Malaysians. Such occasions generally cost between US\$13,000 and US\$30,000 and as many as 200-400 guests are invited. Conducting wedding receptions at mid to high-end Chinese restaurants is also common among the Chinese population. Various local and imported food items are served during these occasions

Muslims account for 56% of Malaysia’s population who consume only foods that are permitted by their religion known as *halal*. Thus Muslims do not consume pork or their products but consume beef, lamb, and poultry that have been slaughtered according to Islamic traditions. Thus all fast food restaurant chains and many mid to high-end restaurants and cafés (including those in hotels and resorts) serve only *halal* foods.

Most of the food and beverage chains operating in Malaysia are US franchises and are found in nearly every city and major town in Malaysia. Many Malaysians study abroad to the US, Britain, Australia, and New Zealand and return to Malaysia. Malaysia’s economy is dependent on international trade and many Malaysians travel abroad on business. Furthermore, many Malaysians in the middle and high-income group have traveled abroad at least once in their lifetime. Thus Malaysians are increasingly open to trying new foods and recipes especially Western menus.

Malaysia’s tourism industry has also led towards the growth of the food service industry in Malaysia. The number of tourist arrivals to Malaysia nearly doubled from 7.9 million in 1999 to 13.2 million in 2002 but declined to 10.6 million in 2003 due to the outbreak SARS in region. However, tourist arrivals to Malaysia are expected to reverse to 15.5 million in 2004 with being SARS abated in the region. Aside from neighboring Singapore, Thailand, and Indonesia, most of the arrivals are from countries of Northeast Asia, North America, Western Europe, and Australia. Common destinations are Kuala Lumpur, Penang, Johor Bahru, Langkawi Island, Kuantan, Kuching and Kota Kinabalu where there are many 4-5 star hotels and resorts.

2.4 Advantages and Challenges for US Food Exporters

Malaysians frequently eat away from home either to save time in preparing meals at home, for family treats, or socializing with friends. Thus there are advantages for US exporters to supply to Malaysia’s food service sector. However, US exporters also face challenges from local producers and imports from other countries.

Advantages and Challenges for US Exporters

Advantages	Challenges
<p>The Malaysian government adopts an “open door” policy towards imports of fresh and processed foods without any import quotas as long as regulatory requirements on imported foods are met.</p>	<p>An import duty and sales tax is imposed on imported processed foods if a local industry producing such foods exists in Malaysia to protect the local industry. However, exporters of processed foods from the ASEAN countries enjoy lower import duties than exporters from other countries such as the US.</p>
<p>Malaysia’s growing economy, rising personal income, urbanization, and increasing number of women joining the workforce has created a more hectic lifestyle and increasing consumerism.</p> <p>Thus Malaysians frequently eat away from home since rising personal income has made eating out especially at mid-end food service establishments more affordable.</p>	<p>Many importers, distributors, and mid to high-end food service establishments are less familiar with US imports compared to foods from Australia, New Zealand, and China.</p> <p>For example, many are familiar with beef, lamb, coldwater seafood, dairy products, and temperate fruits and vegetables from Australia and New Zealand. Many are also familiar with fresh temperate fruits and vegetables from China, pasta from Italy, and salmon from Norway.</p>
<p>Malaysians are becoming more familiar with western foods from their trips abroad as students, on business, or holiday. The US, Britain, Australia, and New Zealand are major destinations for many Malaysians.</p> <p>Nearly all F&B outlets in 4-5 star hotels and resorts serve western menus and there are many mid to high-end restaurants across Malaysia serving such menus. US food service franchise operations dominate the Malaysian market and include fast food restaurants and cafés and are located across Malaysia.</p>	<p>Importers and distributors supplying mid to high-end establishments will purchase at the lowest price from any exporter or country food items that are perceived as substitutable or commodities.</p> <p>For example, importers consider broccoli from China and the US as substitutable and will source imports offered at the lowest price. Beef and lamb from Australia, New Zealand, and the US are known for their quality and considered not substitutable with lower price imports. (US beef is temporarily banned in Malaysia because of the discovery of a single case of bovine spongiform encephalopathy in the US).</p>
<p>Malaysia does not produce or produces in insufficient quantities certain food items and therefore such food items have to be imported. These include beef, lamb, cheese, butter, pasta, and temperate fruits and vegetables.</p>	<p>56% of Malaysia’s population is Muslims. Thus only <i>halal</i> meats (beef, lamb, and poultry) are allowed to be imported into Malaysia from a plant approved by the Malaysian Islamic Development Council and certified by a recognized Islamic institution in the country of export.</p>

Advantages and Challenges for US Exporters

Advantages	Challenges
<p>There are many 4-5 star hotels and resorts in and around Kuala Lumpur, Penang, Johor Bahru, Langakawi Island, Kuantan, Kuching and Kota Kinabalu catering to foreign visitors to Malaysia. F&B outlets in these establishments serve high price local and western menus using imported food items such as beef, lamb, seafood, dairies, fruits, and vegetables.</p>	<p>China is in the same growing season as the US and able to supply temperate fresh fruits and vegetables at lower prices than the US. However, Australia and New Zealand is in the opposite growing season than the US and does directly compete with the US or China for temperate fresh fruits and vegetables.</p>
<p>There is a demand for high priced "exotic" imported foods such as seafood (e.g. coldwater fishes from New Zealand, Australian pomfret, and Sri Lankan crab). These "exotic" foods are perceived as adding prestige to the occasion, especially when dining in Chinese restaurants.</p>	<p>Imports from countries that are closer to Malaysia than the US such as China, Thailand, Australia, and New Zealand have a faster delivery time. Furthermore, their due to their closeness to Malaysia, freight costs from these countries to Malaysia are lower than from the US.</p>

3. Road Map For Market Entry

3.1 Entry Strategy For US Food Exporters

The food service sector comprises of low to high-end establishments. Various foods are served in different types of establishments ranging from local (Chinese, Malay, and Indian), western, to other Asian menus. US exporters face competition from local producers and exporters from other countries who have already established themselves in the food service sector. Thus it is important for the US exporter to understand the Malaysian market for their products when establishing a market entry strategy.

Key Entry Strategies for US Exporters

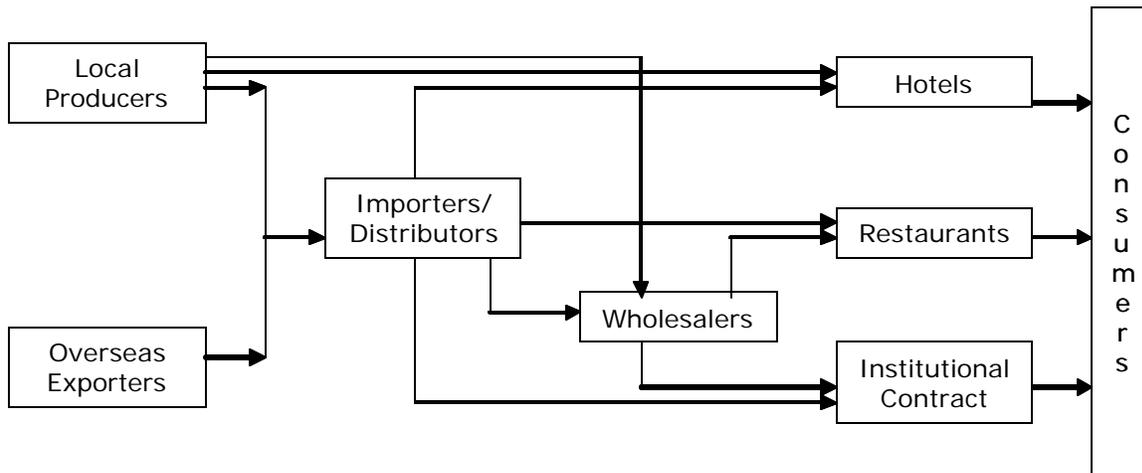
Strategy	Reasons
<p>Conduct promotional activities to create awareness among importers and the food service establishments.</p>	<p>Local food importers and food service establishments are generally less aware of US food products compared to food products from Australia, New Zealand, Thailand, and China. Examples to create awareness of US food products include:</p> <ul style="list-style-type: none"> ■ Participate in exhibitions such as Food and Hotel Malaysia (FHM) and KL Food Festival since hoteliers and restaurateurs often attend to these events to learn and scout for new products and ingredients; ■ Conduct food festivals at leading hotels since they are often attended by importers, other hoteliers, and restaurants from mid to high-end establishments; ■ Samples if possible or pictures of the food item and its price together with a brief description of the food item to generate interest; and ■ Advertise in local food service magazines such as Food & Beverage.
<p>Appoint local importers specialized in the food service industry to import and market the exporter's food products to the food service establishments.</p>	<p>Local importers specialized in food services have an established network with local food service establishments to promote and market the exporter's food items. These specialized importers understand the needs of the individual establishments and potential markets for the exporter's food items.</p> <p>It is also important to maintain a good business relationship with the importers. In Malaysia, as in other parts of Asia, successful business ventures involves maintaining a cordial business relationship between the parties.</p>
<p>Target the mid to high-end food service establishments.</p>	<p>F&B outlets in 4-5 star hotels and resorts and mid to high-end establishments in the restaurant sub-sector represent the best potential for US exporters. Another is the airline catering services in the institutional food service sub-sector.</p> <p>These establishments are willing to purchase higher price quality food items than similar food items that are lower in price and quality. Furthermore, some mid-end and many more high-end full-service restaurants, especially Chinese restaurants, including those in the hotels and resorts serve high priced "exotic" imported foods such as seafood.</p>

Key Entry Strategies for US Exporters

Strategy	Reasons
Acquire <i>halal</i> certification from recognized Islamic institutions in the US.	Many mid to high-end food establishments including fast food restaurants do not serve pork but only <i>halal</i> menus to cater to their Muslim diners. Furthermore, Malaysia only allows import of <i>halal</i> beef, lamb, and poultry into the country.
Maintain a product positioning strategy for the exporter’s food items.	Some food items are perceived as commodities if importers are in the opinion that similar food items are available from other exporters. Price is then the deciding factor to purchase. Thus US exporters would have to compete on the price of their product. By positioning and differentiating an exporter’s product from the competitors establishes a niche market and provides better opportunities for US exporter to compete other than on price. For example, lower priced local and imported fish are available from Thailand, Indonesia, and China. Though New Zealand is not a major exporter of fish to Malaysia, it has established itself a niche market for coldwater seafood and is a major exporter.

3.2 Market Structure

Distribution Channel for HRI Food Service



Generally in the food service industry:

- Sales of imported and locally produced foods to 4-5 star hotels and resorts are usually on a contract or tender basis. Various importers submit their tenders and the hotel or resort's management committee decides on the award taking into consideration feedbacks and comments from their F&B department.
- Some major food producers in Malaysia (e.g. Nestle) have their own marketing department selling directly to the various food service establishments.
- Wholesalers generally sell to smaller full-service restaurants including those in 3 star hotels and institutional food service contractors except airline catering.

Where food service establishments are far away from the importer's business operation, distributors and wholesalers in these far away locations are used to distribute the food items to the establishments.

3.3 Regulations on Importing Foods

Malaysia's Food Act 1983 and the Food Regulations 1985 govern various aspects of food quality control in Malaysia including imported foods. Import formalities are relatively straightforward at the port of entry and clearance is usually within 1-2 days. Custom documents required include a custom entry form, bill of lading, certificate of origin, commercial or pro-forma invoice, and may require a certificate of analysis. The local food importer usually arranges these formalities for clearance at the port of entry

Agriculture or health officials conduct random checks and testing on food consignments at the point of entry. Imported foods that do not meet regulatory health requirements are rejected or destroyed. There are no government quotas on import of foods into Malaysia except rice. Import of genetically modified (GM) foods is permitted but the Ministry of Health is proposing mandatory labeling on foods containing more than three percent GM material.

Import Regulations

Issues	Requirements
Labeling requirements for processed food products	<ul style="list-style-type: none"> ■ To indicate the products' weight or volume, ingredients according to proportion including additives, alcohol, and animal content. Expiry dates are required on foods with a short shelf life. ■ All imported processed food products must show the name of the manufacturer and importer or importing agent. ■ If the above are not mentioned on the packaging, details printed on labels affixed onto the packaging are acceptable.
Meat products (excluding pork)	<ul style="list-style-type: none"> ■ Only certified <i>halal</i> meat products are to be imported into Malaysia. Imported <i>halal</i> meat and meat products must be from a plant approved by the Malaysian Islamic Development Council and certified by a recognized Islamic institution based in the country of export. ■ Meat and meat products require an import license and the meat product must be free from anthrax and bovine spongiform encephalopathy (mad cow disease).

Import Regulations

Issues	Requirements
Use of food additives	<ul style="list-style-type: none"> ■ Regulations on maximum permissible level of specified additives have to be followed including preservatives, dyes, flavoring substances, antioxidants, and food conditioners.

3.4 Sector Profile

There are four major sub-sectors under food services in Malaysia. These four sub-sectors are the:

- Hotels and resorts, which includes full-service restaurants and cafés/bars found mainly in 3-5 star establishments;
- Restaurants, which also includes full-service restaurants, cafés/bars, and fast food restaurants;
- Institutional food services, which includes catering services to government institutions, factory cafeterias, and airlines.
- Stall foods sold on the streets or in food courts generally selling relatively cheap local dishes.

F&B outlets in 4-5 star hotels and resorts; mid to high-end full-service restaurants, cafés/bars, and fast food restaurants; and airline catering (institutional food services) represents the best potential for US exporters. However, 3 star hotels and resorts represent moderate potential for US exporters compared to 4-5 star hotels. These establishments regularly purchase imported foods whereby the quality and uniqueness of the food are important purchasing criteria.

3.4.1 Hotel and Resorts Sub-Sector

Most of the full-service restaurants and cafés/bars in 4-5 star hotels and resorts are located in or around Kuala Lumpur, Johor Bahru, Penang, Langkawi Island, Kuantan, Kuching and Kota Kinabalu. However, major concentrations are in and around Kuala Lumpur and Penang. There were 1,800 F&B outlets in 3-5 star hotels and resorts in 2003 and food service sales in this sub-sector grew by 63.5% from US\$200 million in 1999 to US\$327 million in 2003. Sales of foods and beverages account for 20%-30% of the total revenue of many 4-5 star hotels and resorts.

Hotels and Resorts Food Service Sales (US\$ Mil)

Type of F&B Establishment	1999	2000	2001	2002	2003
Café/Bars	107	136	160	184	214
Full-service restaurants	93	101	104	108	113
Total	200	237	264	292	327

Source: Euromonitor, Malaysia Tourism, trade sources, and Spire analysis.

Food quality and overall service levels are generally high leading to higher prices charged for foods and beverages in 4-5 star hotels and resorts. Local menus (Malay, Chinese and Indian) alongside western and other Asian menus are generally served. Besides dining by guests:

- Families, friends, and even businesses often celebrate festivities (e.g. Chinese New Year, Christmas, and New Year) at these establishments
- Many hotels during the Muslim fasting month of Ramadan have month long buffet promotions for Muslims to break the fast.
- Food sales are also from events and functions such as weddings and seminar packages.

Imported beef, lamb, cheese, butter, and jam from Australia and New Zealand are generally served. Chicken is sourced mainly from local produce but turkey is imported from the US. Seafood (fish, mollusks, and crustaceans) is a commonly served and diners at Chinese restaurants are willing to pay exorbitant prices for "exotic" seafood since they add prestige to the occasion. Seafood from the coldwater is imported mainly from New Zealand and salmon from Norway. Imported temperate fruits and vegetables are also served and imported mainly from China, Australia, New Zealand, and the US.

Selected Major 5 Star Hotels in Kuala Lumpur (Sales in US\$ Mil)

Hotels in Kuala Lumpur	Type of F&B Outlet	No. of Outlets	Food Sales	Banqueting Services
Pan Pacific	Bars	1	3	Ballroom can cater up to 550 people for weddings and other functions.
	Cafes	1		
	Full service restaurants (Chinese, Japanese)	2		
Renaissance	Bars	4	5	Convention center available for banquets and conferences.
	Cafes	2		
	Full service restaurants (Chinese, Japanese, Mediterranean)	3		
Equatorial	Bars	2	3	Ballroom can cater up to 500 people for weddings and other functions.
	Cafes	2		
	Restaurants (Chinese, Japanese)	2		
Mandarin Oriental	Bars	1	3	Facilities available for large dinners, banquets and themed events.
	Cafes	2		
	Restaurants (Chinese, Western, Italian)	3		
Shangri-La	Bars	2	5	Ballroom can cater 800 people for weddings and other functions.
	Cafes	4		
	Restaurants (Chinese, Japanese, French)	3		

Source: Published company sources including website and sales estimates based on trade sources.

3.4.2 Restaurant Sub-Sector

The restaurant sub-sector includes the full-service restaurants, cafés and bars, and fast food restaurants. Most of the mid to high-end establishments are concentrated in the cities and major towns where there is a significant population of middle and high-income customers. There were 15,600 establishments in 2003 and food service sales increased by 40.4% from US\$2.06 billion in 1999 to US\$2.89 billion in 2003. Full-service restaurants accounted for 54.6% of the total sales in this sub-sector followed by the cafés and bars (28.7%), and fast food restaurants (16.7%).

- The fastest growing segment is the cafés and bars and sales grew by 98.3% from US\$418 million in 1999 to US\$829 million in 2003.

The second fastest growing segment is the fast food restaurants and sales grew by 48.5% from US\$326 million in 1999 to US\$484 million in 2003.

Restaurant Sub-Sector Food Service Sales (US\$ Mil)

Type of F&B Establishment	1999	2000	2001	2002	2003
Full-Service Restaurant	1,316	1,422	1,458	1,514	1,580
Cafes/Bars	418	532	625	716	829
Fast Food	326	372	398	429	484
Total	2,060	2,327	2,482	2,659	2,893

Source: Euromonitor, trade sources, and Spire analysis.

Full-Service Restaurants. Full-service restaurants in this sub-sector include restaurants serving Chinese, Malay, Indian, Japanese, and western menus. They import similar food products as full-service restaurants in the hotels and resorts sub-sector. Most Chinese restaurants do not serve *halal* foods and dishes serving pork is common in the menus. Ordering seafood (fish, mollusks, and crustaceans) is popular among diners in Chinese restaurants and high priced "exotic" seafood is prized by diners. However, most western, Japanese, Malay, and Indian full-service restaurants serve *halal* foods. Many full-service restaurants franchise chains in Malaysia are US or Malaysian franchise operations. Pizza is a popular menu and dominated by Pizza Hut and Shakey's Pizza.

Major Full-Service Restaurants Chains (Sales in US\$ Mil)

Name of Establishment	Type of Menu	Franchise	No. of Outlets	Sales in 2003	Major Locations of Outlets
Pizza Hut	Pizza and other western	US	102	57	Kuala Lumpur and major towns in Malaysia
Four Seasons	Chinese	Malaysian	15	18	Kuala Lumpur
Chakri Palace	Indian	Malaysian	5	25	Kuala Lumpur and nearby towns
Tai Thong	Chinese	Malaysian	10	14	Kuala Lumpur and nearby towns and Perak
Shakey's	Pizza and other western	US	23	13	Kuala Lumpur and major towns in Malaysia
Chili's	Western	US	4	12	Kuala Lumpur
Dave's Deli	Western	Malaysian	23	9	Kuala Lumpur and major towns in Malaysia
TGI Friday's	Western	US	5	6	Kuala Lumpur and nearby towns and Johor

Major Full-Service Restaurants Chains (Sales in US\$ Mil)

Name of Establishment	Type of Menu	Franchise	No. of Outlets	Sales in 2003	Major Locations of Outlets
Sushi King	Japanese	Malaysian	32	4	Kuala Lumpur and major towns in Malaysia

Source: Published company sources, trade sources, and Spire analysis

Cafés and Bars. This food service segment comprises mainly of specialist coffee houses. Others include gourmet coffee houses, tapas, wine bars, and tea houses. These establishments are found in cities and major towns across Malaysia but most are concentrated in Kuala Lumpur. They are often found in exclusive locations catering to a more affluent segment of Malaysia's population. Business and social meetings are often conducted in these establishments and are viewed as trendy. Major café chains are US franchise operations and main menus served are western dishes.

Major Café Chains (US\$ Mil)

Name of Establishment	Type of Menu	Franchise	No. of Outlets	Sales in 2003	Major Locations of Outlets
Starbucks	Western	US	40	38	Kuala Lumpur, Penang, Pahang, Johor
Coffee Bean	Western	US	37	32	Kuala Lumpur and major towns in Malaysia
Dome	Western	US	10	16	Kuala Lumpur and nearby towns and Penang
Gloria Jean's	Western	US	11	15	Kuala Lumpur, Penang, and Malacca
San Francisco Coffee	Western	US	14	9	Kuala Lumpur and nearby towns
Austin Chase	Western	US	5	1	Kuala Lumpur and nearby towns

Source: Published company sources, trade sources, and Spire analysis

Fast Food Restaurants. Fast food restaurants are becoming increasingly popular for family outings, meeting friends, and quick meals. Western menus are generally served but catered to local tastes. For example, chili sauce is offered, besides ketchup, in nearly all fast food restaurants. Fast food restaurants in Malaysia are dominated by US followed by Malaysian franchise operations. Major US fast food restaurants include KFC, McDonald's, Burger King, Domino Pizza, and A&W and are located in cities and major towns across Malaysia. Menus serving beef and chicken are popular and chicken is sourced from local poultry farms while beef imported from Australia.

Major Fast Food Chains (US\$ Mil)

Name of Establishment	Type of Menu	Franchise	No. of Outlets	Sales in 2003	Major Locations of Outlets
KFC	Western	US	334	216	Kuala Lumpur, major towns, and smaller towns in Malaysia
McDonald's	Western	US	148	75	Kuala Lumpur and major towns in Malaysia
Delifrance	Western	French	40	37	Kuala Lumpur, Penang, Johor Bahru
Marrybrown	Western	Malaysian	89	26	Kuala Lumpur and major towns in Malaysia
A&W	Western	US	21	21	Kuala Lumpur and major towns in Malaysia

Source: Published company sources, trade sources, and Spire analysis

3.4.3 Institutional Food Service Sub-Sector

The institutional sub-sector includes food services to government institutions (e.g. schools, police, military, and hospitals) and airline catering. The value of this sub-sector is estimated at US\$185 million in 2003 accounting for 4.3% of the total food service sales. Food services to government institutions are not a potential for US exporters since it is dominated by many small family-owned operations serving low cost local menus.

Airline catering represents the best potential for US exporters in this sub-sector. Airline catering is dominated by MAS Catering, which services Malaysia's national carrier Malaysian Airlines and 20 other airlines landing in Malaysia. Nearly 35,000 meals are prepared daily serving imported quality foods in its international first and business-class menus including beef, veal, mushrooms, cherries, caviar, and seafood. Sales declined from US\$56 million in 2002 to US\$52 million in 2003 due to the outbreak of SARS.

Institutional Food Service Sales (US\$ Mil)

Type of F&B Establishment	1999	2000	2001	2002	2003
MAS Catering	51	52	52	56	52
Others	106	108	113	117	133
Total	157	160	165	173	185

Source: Published company sources, trade sources, and Spire analysis

4. Competition

Major competitors for US exporters are exporters from Australia, New Zealand, China, India, Thailand, and Indonesia besides local producers. While China, India, Thailand, and Indonesia compete on the price of their food products, Australia and New Zealand rely more on aggressive marketing and promotion through their importers.

Local importers often use “food catalogs” containing pictures, details, and prices of the imported food items to promote to the food service establishments. For example, US black codfish and Chilean sea bass received increasing acceptance through such “food catalogs”. The bi-annual Food and Hotel Malaysia (FHM) and KL Food Festival is an important venue for many exporters, importers, local producers, and buyers from food service establishments. Exporters sometime conduct promotions in leading hotels such as “New Zealand Wine”, “Saba Saikyo Yaki Delicacy” from Japan, and “Wholesome Hunan Specialties” from China.

Major Imports in 2003

Product Category	Major Supply Countries*	Strengths of Supplying Countries	Advantages and Disadvantages of Local Suppliers
Fruits (fresh or chilled) Import: 325,817 tons (US\$118.4 mil)	1. China – 35% 2. Thailand – 12% 3. Australia – 10% 4. US – 9%	Low price imports of temperate fruits from China. Tropical fruits from Thailand are transported through land border with Malaysia while Australia is in opposite growing season from the US.	Fruits cultivated in Malaysia are tropical fruits and therefore Malaysia is dependent on imports for temperate fruits.
Canned/preserved fruits (including tomato & jam) Import: 55,179 tons (US\$57.1 mil)	1. China – 52% 2. Thailand – 18% 3. Turkey – 7% 4. US – 3%	China and Thailand cater to Asian fruit products while Turkey is well known for its tomato paste.	Local industry is limited to pineapples and Malaysian tropical fruits.
Vegetables (fresh or chilled) Import: 666,903 tons (US\$210.0 mil)	1. China – 38% 2. India – 15% 3. Australia – 13% 4. US – 4%	Low price imports of temperate vegetables from China, India is a major supplier of onions, while Australia is in opposite growing season from the US.	Local cultivation is unable to meet demand for various vegetables especially temperate vegetables.

Major Imports in 2003

Product Category	Major Supply Countries*	Strengths of Supplying Countries	Advantages and Disadvantages of Local Suppliers
Beef and lamb including processed Import: 113,684 tons (US\$210.3 mil)	<ol style="list-style-type: none"> 1. India – 40% 2. N. Zealand – 16% 3. Australia – 15% 4. US - 2% 	Indian beef is cheaper than local beef while quality meat from Australia, New Zealand, and the US are well-known in the food service sector. (Beef from the US is temporarily banned in Malaysia because of the discovery of a single case of bovine spongiform encephalopathy in the US).	Local industry is small and fragmented and therefore unable to meet demand from the food service industry.
Poultry Import: 38,858 tons (US\$49.1 mil)	<ol style="list-style-type: none"> 1. Thailand – 35% 2. Denmark – 28% 3. Netherlands – 12% 4. US – 5% 	Thailand's closeness to Malaysia shortens delivery time while Denmark and Holland has been a traditional supplier of imported frozen poultry.	Established poultry industry dominated by large poultry companies.
Fish (fresh, chilled, or frozen) Import: 269,588 tons (US\$185.0 mil)	<ol style="list-style-type: none"> 1. Thailand – 31% 2. Indonesia – 20% 3. China – 6% 4. US – 1% 	Low price imports from Thailand, Indonesia, and China and short delivery time due to closeness to Malaysia.	Established fishing industry but unable to meet local demand. Coldwater fish popular in restaurants is unavailable from Malaysia's tropical seas and therefore imported mainly from New Zealand.
Shellfish & crustaceans (fresh, chilled, or frozen) Import: 45,772 tons (US\$101.5 mil)	<ol style="list-style-type: none"> 1. China – 27% 2. Indonesia – 20% 3. Thailand – 17% 4. US - <1% 	Low price imports from China, Indonesia, and Thailand and closeness to Malaysia shortens delivery time and costs.	Established local industry for breeding and harvesting shellfish from the coastal waters.

Major Imports in 2003

Product Category	Major Supply Countries*	Strengths of Supplying Countries	Advantages and Disadvantages of Local Suppliers
Dairies (milk, cream, butter, yoghurt, & cheese) Imports: 20,911 tons (US\$38.8 mil)	<ol style="list-style-type: none"> 1. Australia – 50% 2. N. Zealand – 38% 3. France – 3% 4. US – 1% 	Products from New Zealand and Australia are well established and known for their quality due to strong promotional activities.	Established dairy food processing industry but dependent on imports of raw dairy food materials due to limited supplies of locally produced milk.
Fruit juice including vegetable juice Imports: 20.2 mil liters (US\$24.7 mil)	<ol style="list-style-type: none"> 1. Netherlands – 13% 2. US – 10% 3. Australia – 9% 	A variety of quality juices originating from temperate fruits from the Netherlands, US, and Australia.	Established distribution channel but limited range of juices originating from temperate fruits.

*Source: Malaysian Statistics Department and trade sources. Note: *US included if not among the top three major suppliers.*

5. Best Product Prospects

The best product prospects are developed from a broad base study of the Malaysian market and should not be construed as detailed market studies of each segment. US exporters who are interested to develop viable markets should consider conducting a detailed market study for the products they represent.

5.1 Products Having Good Sales Potential

Product Category (HS Code)	2003 Market Size	2003 Imports	Import Tariff Rate	Key Constraints Over Market Developments	Market Attractiveness for US Exporters
Poultry (HS 0207)	1.4 mil tons	38,858 tons	None for fresh, chilled, or frozen. 5% sales tax for processed.	Large poultry companies dominate and quality frozen <i>halal</i> imports from Denmark and the Netherlands.	Market for turkey (US is a major supplier) during Christmas. Turkey is used to produce turkey ham as an alternative to pork to cater to Muslim diners.
Beef and lamb including processed (HS 1601, 1602, and 0202)	155,000 tons	113,684 tons	None for fresh, chilled, or frozen. 5% sales tax for veal. 0-20% import duty and 5% sales tax for processed.	Low price beef from India and aggressive marketing by Australian and New Zealand exporters for high quality meat.	Demand for high quality meat for fine-dining and fast food restaurants (for burgers and hotdogs). Furthermore, local produce is unable to meet demand from the food service industry.
Fish (fresh, chilled, or frozen) (HS 0304)	1.4 mil tons	269,588 tons	None	Established local industry complemented by low price imports from Thailand, Indonesia, and China. Also, food service industry is not familiar with US fish.	Market for cold-water fish such as salmon, cod, and trout for fine dining at western and Chinese restaurants.

Product Category (HS Code)	2003 Market Size	2003 Imports	Import Tariff Rate	Key Constraints Over Market Developments	Market Attractiveness for US Exporters
Shellfish & crustaceans (fresh, chilled, or frozen) (HS 0306 and 0307)	370,000 tons	45,772 tons	0-20% import duty for and for some 5% sales tax.	Established local industry involved in marine culture and low price imports from China, Indonesia, and Thailand.	Market from high-end Chinese restaurants for unique coldwater shellfish and crustaceans such as crabs, oysters, crawfish, and lobsters.
Fresh vegetables (HS 0701 to 0709)	1.4 mil tons	666,903 tons	No import duty or sales tax.	Competition from local cultivation and low price imports from neighboring countries coupled with aggressive marketing from Australia.	Demand for temperate fresh vegetables which Malaysia has to import since its cultivation is limited to the highlands.
Fresh fruits (HS 0803 to 0810)	2.3 mil tons	325,817 tons	5% import duty and for most 5% sales tax.	Competition from Malaysian tropical fruits, low price imports from China, and imports from Australia are marketed as quality produce.	Demand for temperate fruits but Malaysia is dependent on imports since local cultivation is mainly on tropical fruits.
Soft drinks including juices (HS 2009)	159.1 mil liters	20.2 mil liters	0-30% import duty and for most 5% sales tax.	Local production dominating market for non-carbonated drinks including juices.	Demand for non-alcoholic wine and "purer" fruit juices than those available from local produce.
Sauces and condiments (HS 2103)	65,600 tons	7,330 tons	0-20% import duty and for some 5% sales tax.	Demand more for sauces suited for local food preparations and dining supplied mainly by local food manufacturers.	Increasing acceptance of western foods and the US is a major exporter of such sauces to complement western foods.

Product Category (HS Code)	2003 Market Size	2003 Imports	Import Tariff Rate	Key Constraints Over Market Developments	Market Attractiveness for US Exporters
Processed fruits (mostly canned) (HS 2008)	83,800 tons	21,998 tons	0-10% import duty and for some 5% sales tax.	Dominated by canned tropical fruits from local production and imports.	Western restaurants serve canned temperate fruits used in desserts and bakeries.

Source: Malaysian Statistics Department, Euromonitor, trade sources, Spire analysis, and Malaysian Customs Tariff on Import/Export.

5.2 Potential Products Not Present In Significant Quantities

Product Category	2003 Market Size	2003 Imports	Import Tariff Rate	Key Constraints Over Market Developments	Market Attractiveness for US Exporters
Cereals (HS 1904)	10,340 tons	5,300 tons	2-7% import duty and 5-10% sales tax.	Local diners prefer local menus served in restaurants for their breakfast than cereals.	Foreign diners from western countries prefer cereals as part of their breakfast menu.
Butter (HS 0405)	8,614 tons	8,614 tons	2% import duty and 5% sales tax.	Butter from Australia and New Zealand is well known and has a captive market in the food service sector.	No local production and preferred over margarine by food services establishments.
Jam, nut based, and chocolate spreads (HS 2007)	7,900 tons	3,074 tons	No import duty but for some 5% sales tax.	Competition from local production and competitively price imports from Australia.	Imported jams are preferred by mid and high-end western restaurants due to higher fruit content.

Product Category	2003 Market Size	2003 Imports	Import Tariff Rate	Key Constraints Over Market Developments	Market Attractiveness for US Exporters
Cheese and curd (HS 0406)	5,651 tons	5,651 tons	5-10% import duty and 5% sales tax.	Cheeses from Australia, New Zealand, and Denmark are traditional suppliers to the food service sector.	No local production and commonly serve by mid and high-end restaurants serving western foods.
Pasta (HS 1902)	2,357 tons	2,357 tons	5-8% sales tax and for some 5% sales tax.	Asian restaurants prefer to use noodles rather than pasta.	No local production and pasta dishes are popular menus in restaurants serving western foods.

Source: Malaysian Statistics Department, Euromonitor, trade sources, Spire analysis, and Malaysian Customs Tariff on Import/Export.

5.3 Products Facing Significant Barriers

Products Facing Significant Barriers

Product Category	2003 Market Size	2003 Import	Import Tariff Rate	Key Constraints Over Market Developments	Market Attractiveness for US Exporters
Rice (HS 1006)	2.4 mil tons	840,000 tons	No import duty or sales tax	Imports are monopolized and controlled by Bernas (a government corporation) importing mainly from Myanmar, Vietnam and Thailand.	Medium to high-end food service outlets often serve imported premium rice to their customers.

Source: Malaysian Statistics Department, trade sources, Spire analysis, and Malaysian Customs Tariff on Import/Export.

END OF REPORT